Press Release

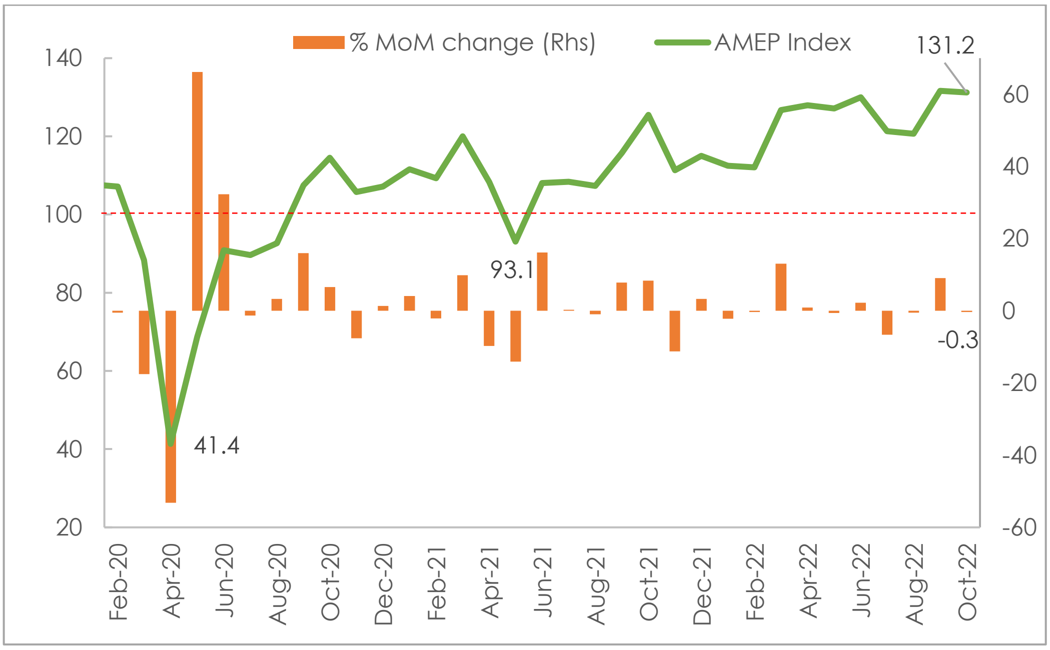
AMEP index reflects domestic economic resilience

FY23 GDP growth revised slightly to 7.0% amid intensified global headwinds

22-Nov-2022

Despite the unsettling global economic backdrop, India's economy has remained broadly stable drawing strength from the domestic macroeconomic buffers further supported by a fairly healthy recovery in domestic demand. Our **Acuité Macroeconomic Performance index (AMEP index)** remained steady at 131.2 in Oct-22 from a record high level of 131.6 in Sep-22. However, on annualized basis the index grew by a moderate 4.6% YoY in Oct-22, after expanding in double-digits for six consecutive months. The slowdown in the growth print may be partly due to preponement of festive season in Oct-22 vs. the previous year where the festivities mainly happened in Nov-21. This consecutive shift in the holiday calendar and thereby the base element, led the economic activities to grow at a slower pace in Oct-22 on an annualized basis. Sequentially, the index contracted marginally by 0.3% MoM (vs. +9.1% MoM in Sep-22), in line with seasonal phenomenon where the economic activities usually record a dip after the festive buoyancy.

Chart 1: AMEP index in Oct-22 remains upbeat

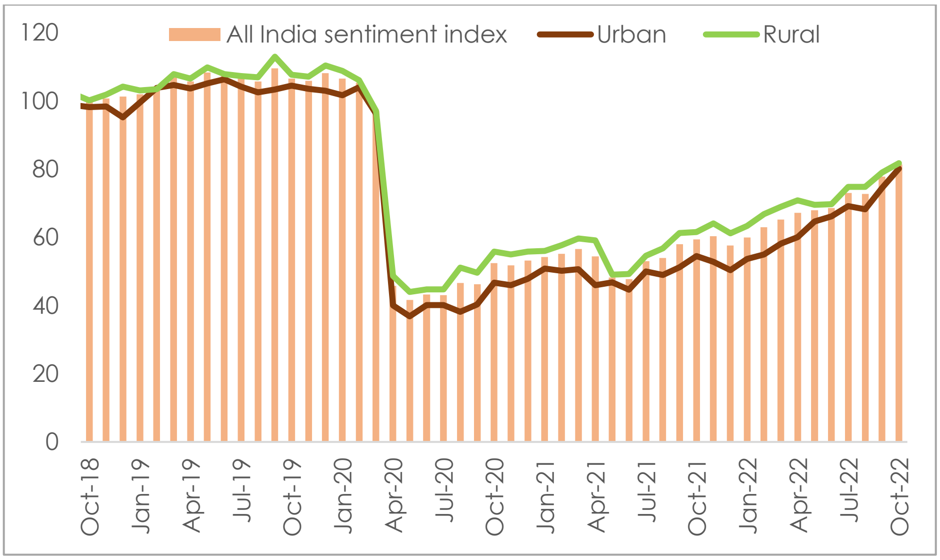


Source: CMIE, Acuité Ratings and Research, Base Month: Aug-2019: 100

Note: AMEP index has been constructed deploying sixteen high frequency indicators across four major categories– consumption demand, industrial production, external sector, and employment. Base

From the range of sixteen high-frequency indicators, the domestic demand indicators namely GST collections, auto and tractor sales, E-way bills, power generation, fuel consumption held up well amidst pent-up demand given two consecutive years of a bleak festive mood led by multiple onslaughts of pandemic waves. The festive cheer brought about by the complete normalization on the mobility front also led key services indicators such as rail passenger traffic to register a robust performance. This was very well reflected in the consumer sentiment indices for both urban and rural regions which continued to trail at their respective ~30 months high in Oct-22.

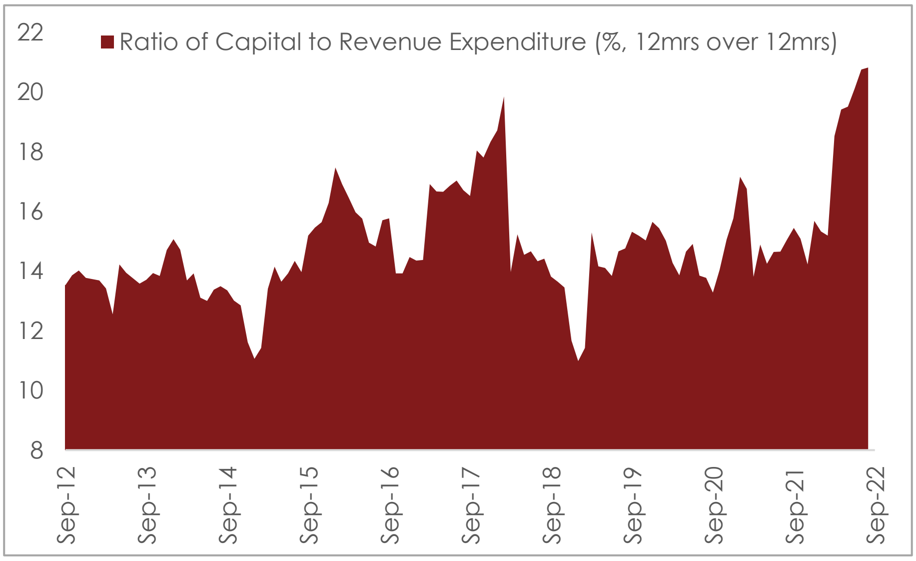
Chart 2: Consumer sentiments soar to a 30-month high in Sep-22



Source: CMIE, Acuité Ratings and Research

Given the data print in air traffic, PV sales, and sales of consumer non-durables, urban demand has seen a stronger recovery; while rural demand has remained fragile, it has been showing some signs of improvement as also validated by tractor, two and three-wheeler sales in Sep-Oct'22 primarily aided by festive season. Looking at the overall farm sector, despite the uneven distribution of monsoon, Kharif season closed with near normal acreage sown. While we do not rule out a modest shortfall in production or price pressure especially for cereals (i.e., wheat and rice) remaining somewhat intact in Q3 FY23, the downside in agriculture output is likely to be capped. A late withdrawal of monsoon and bountiful reservoir levels, along with the higher than previous year's hike in wheat MSP for 2022-23 season, augurs well for Rabi sowing and output and thereby auguring well for rural demand. Separately, the thrust on capital spending has continued to remain robust with quality of spending (capex over revex) remaining strong.

Chart 3: Quality of central government spending continues to improve



Amidst spiraling global hostilities, aggressive and synchronized policy tightening have been weighing on global growth. This is clearly reflected in domestic export growth performance which slipped to USD 29.8 bn in Oct-22 – the first monthly reading below USD 30 bn in last 20 months, compared to USD 35.4 bn in Sep-22. Going forward, we expect the export performance to remain weak with prospects of a significant slowdown in India's key exports markets such as Eurozone and the US which account for nearly 50% of India's total exports. In addition, IMF in its recent commentary flagged off further downside risks calling the global outlook even 'gloomier' after cutting its global growth forecast for 2023 by 20 bps to 2.7%.

From growth perspective, taking into consideration the performance of AMEP index we expect Q2 GDP growth at 6.5% YoY vs. 13.5% YoY in Q1 FY23. Looking ahead, on annualised basis, as the favourable statistical effect tapers, the GDP growth is expected decelerate over H2 FY23. Balancing the continuing global risks and domestic support factors as highlighted above we have revised our FY23 GDP growth forecast slightly lower by 20 bps to 7.0%.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "An analysis of our AMEP index print reveals that the broader domestic economic activity has increased by 19.9%, on an average, in the first seven months of the current fiscal (Apr-Oct'22) as compared to the seven months prior to the start of the pandemic (Aug-Feb'20) which translates into an annualized growth of 6.2% and reflects a moderately healthy, if not strong recovery in private consumption demand after the prolonged pandemic. While the revival in urban demand has been quick particularly with respect to services, rural demand has been lacklustre and is expected to improve by H2FY23. The external headwinds are likely to continue, impacting exports and external fund raising; what will continue to support the economy is higher investment demand through a step up in public capital expenditure and hopefully, a turnaround in that of private sector as well."

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,200 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Media Contact:

Sahban Kohari
Ph: + 91-9890318722
sahban@eminenceonline.in

Analytical Contacts:

Suman Chowdhury Chief Analytical Officer Ph: + 91-9930831560 suman.chowdhury@acuite.in	Prosenjit Ghosh Chief Operating Officer – Subsidiaries Ph: +91-9920656299 prosenjit.ghosh@acuite.in